

# What you need to know about doing business with RBC Correspondent Services



This document contains information about your account(s) at RBC Correspondent Services (“RBC CS”), a division of RBC Capital Markets, LLC (“RBC CM”).

## Margin disclosure statement

RBC CM is furnishing this disclosure to you to provide some basic facts about purchasing securities on margin, and to alert you to the risks involved with trading securities in a margin account. Before trading stocks in a margin account, you should carefully review the margin agreement provided by RBC CM. Consult your financial advisor regarding any questions or concerns you may have with your margin account(s).

When you purchase securities, you may pay for the securities in full or you may borrow part of the purchase price from RBC CM. If you choose to borrow funds from RBC CM, you will open a margin account with RBC CM. The securities purchased are RBC CM’s collateral for the loan to you. If the securities in your account decline in value, so does the value of the collateral supporting your loan, and, as a result, RBC CM can take action, such as issue a margin call or sell securities or other assets in any of your accounts held with RBC CM, in order to maintain the required equity in the account. It is important that you fully understand the risks involved in trading securities on margin. These risks include the following:

- **You can lose more funds than you deposit in the margin account.** A decline in the value of securities that are purchased on margin may require you to provide additional funds to RBC CM for the loan to avoid the forced sale of those securities or other securities or assets in your account(s).
- **RBC CM can force the sale of securities or other assets in your account(s).** If the equity in your account falls below the maintenance margin requirements, or RBC CM’s higher “house” requirements, RBC CM can sell the securities or other assets in any of your accounts held to cover the margin deficiency. You also will be responsible for any shortfall in the account after such a sale.
- **RBC CM can sell your securities or other assets without contacting you.** Some investors mistakenly believe that RBC CM must contact them for a margin call to be valid, and that RBC CM cannot liquidate securities or other

assets in their accounts to meet the call unless RBC CM has contacted them first. This is not the case. RBC CM will attempt to notify clients of margin calls, but the firm is not required to do so. However, even if RBC CM has contacted a client and provided a specific date by which the client can meet a margin call, RBC CM can still take necessary steps to protect its financial interests, including immediately selling the securities without notice to the client.

- **You are not entitled to choose which securities or other assets in your account(s) are liquidated or sold to meet a margin call.** Because the securities are collateral for the margin loan, RBC CM has the right to decide which security to sell in order to protect its interests.
- **RBC CM can increase its “house” maintenance margin requirements at any time and is not required to provide you advance written notice.** These changes in firm policy often take effect immediately and may result in the issuance of a maintenance margin call. Your failure to satisfy the call may cause RBC CM to liquidate or sell securities in your account(s).
- **You are not entitled to an extension of time on a margin call.** While an extension of time to meet margin requirements may be available to clients under certain conditions, a client does not have a right to the extension.

## Order routing policies; payment for order flow, receipt of payment for order flow

Upon the receipt of an order from your brokerage firm, RBC CS will route the order for execution. Our primary objective is to obtain the best execution of orders, regardless of any compensation factor.

RBC CS has established electronic connectivity with broker-dealers and other market centers (collectively, “market centers”) for the purpose of routing orders in equity securities and options for execution. These arrangements have been entered into based upon the execution quality provided by these market centers, evaluated on the basis of price improvement performance, liquidity enhancement, frequency of executions taking place at or better than the inside market, and speed of execution. RBC CS regularly assesses the execution performance of the market centers to which it routes order flow, as well as competing market centers.

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Client orders sent to market centers are subject to the principles of best execution. Each of these market centers provides the opportunity for execution of these orders at prices better than the national best bid or offer (“NBBO”)\*.

RBC CS receives payment in the form of cash, rebates and credits against fees in return for routing client orders in equity and option securities. Any remuneration that RBC CS receives for directing orders to any market center reduces the firm’s execution costs and will not accrue to your account.

RBC CS contracts with a third party vendor, S3 Execution Services, to receive execution metrics to meet its best execution requirements under FINRA rules. The firm has arranged for its market centers to pay for this service based on previous year’s routing percentages at each destination.

In addition to RBC CS, RBC Capital Markets, LLC operates an RBC Capital Markets division (“RBC CM”) which acts as a market maker in certain equity securities and Exchange Traded Funds (ETFs). RBC Capital Markets may trade as principal with RBC CS client orders, and stands to realize profits and losses as a result of this trading. In handling your orders, RBC CM utilizes a “No Knowledge” exception from a Financial Industry Regulatory Authority (FINRA) order protection regulation that permits RBC CM to trade for its market-making account at prices that would satisfy an order that you place with RBC CS without executing your order. The availability of this exception is based upon the persons responsible for execution of orders for RBC CM market-making account and being unaware of the order(s) that may have been eligible for execution at the price at which RBC CM market-making account traded.

RBC CS submits orders for execution to market centers with which the firm has connectivity. If RBC CS determines the best destination for your order is RBC CM, please be advised RBC CM may utilize a “Large Orders and Institutional Account” exception for orders of 10,000 shares or greater or \$100,000 or greater in value that permits RBC CM to trade for its market-making account at prices that would satisfy an order that you placed with RBC CS without an execution. Information with respect to RBC CS’s handling of customer orders is available by visiting, <http://external.s3.com/rule606/rbcwm/correspondentsvcs/> and selecting 606-RBC\_DCSD for the appropriate year and quarter you wish to review. Should you desire a written copy of this information, you may contact your financial advisor.

You have the right to request information with respect to any order in an equity security or option that was placed on your behalf with RBC CS during the six months preceding your request. Specifically, RBC CS will disclose where your order was routed for execution, the time(s) of any execution(s) resulting from your order, or, alternatively, whether it was executed principally by RBC CM. While Securities and

Exchange Commission (SEC) rules require disclosure of whether an order was routed to a particular market center at your request, RBC CS has a policy against accepting such directed orders. If you desire to make a request with respect to where your order was routed for execution and the time(s) at which your order was executed, you may contact your financial advisor.

Although odd-lot volume is reported to the consolidated tape and included in the daily reported volume, such transactions are not included in the calculation of the closing price for a security, nor are they reflected in the daily high or low price of a security. Odd-lot transactions also do not trigger a Limit Up/Limit Down state, a single stock circuit breaker or any other condition that may lead to a trading halt, nor will the execution of an odd lot trigger stop any order you may have placed with RBC CS.

Your brokerage firm may choose to execute trades away from RBC CS. It is your brokerage firm’s responsibility to disclose any payment it receives for order directed to anyone other than RBC CS. It is also your brokerage firm’s responsibility to assess the quality of the market for trades executed away from RBC CS.

*\* The national NBBO is the best published bid or offer for the purchase or sale, respectively, of a security at the time an order is presented for execution.*

### **Statement of financial condition**

RBC CM provides a report to customers semiannually on the firm’s financial condition. As a broker-dealer, RBC CM is subject to rules for maintaining sufficient net capital as set forth by three regulatory bodies: the SEC, FINRA, and the U.S. Commodity Futures Trading Commission (“CFTC”). The rules are designed to measure the general financial integrity and liquidity of a broker-dealer and define the minimum net capital deemed necessary to meet the broker-dealer’s continuing commitment to customers.

- The SEC’s Uniform Net Capital Rule, Rule 15c3-1 (the “Rule”), sets a minimum net capital requirement that is determined based on the type of activity a broker-dealer conducts. In RBC CM’s case, the minimum net capital requirement is \$1.5 million. However, the Rule also requires that the minimum capital requirement be compared to additional capital requirement tests that can either be computed using the Rule’s “Basic Method” or the “Alternative Method.” RBC CS has elected to use the Alternative Method. Therefore, RBC CM’s net capital requirement will be the greater of the result of the Alternative Method calculation or the minimum requirement of \$1.5 million.

- FINRA's net capital requirements may require a member organization to reduce its business if net capital is less than 125% of the minimum requirement, 110% of the minimum risk-based capital requirement of the Commodity Exchange Act or 4% of aggregate debit items. It may also prohibit a member firm from expanding its business and declaring cash dividends if its regulatory net capital is less than 150% of the minimum requirement, 120% of the minimum risk-based capital requirement of the Commodity Exchange Act or 5% of aggregate debit items.
- The CFTC's Regulation 1.17 requires that RBC CM maintain net capital, as defined, equal to 8% of the total risk margin requirement for positions carried in customer accounts and 8% of the total risk margin requirement for positions carried in non-customer accounts, as defined.

Failure to maintain the required net capital may subject a firm to suspension or expulsion by the SEC, FINRA, and other regulatory bodies, and may ultimately require its liquidation.

RBC CM has at all times maintained its net capital above SEC, FINRA and CFTC required levels. On October 31, 2019, RBC CM has net capital of \$1.841 billion, which was \$1.600 billion in excess of the required minimum net capital. Copies of RBC CM's Statement of Financial Condition and footnotes as of October 31, 2019, may be obtained without charge by visiting our website at [www.rbcwm-usa.com](http://www.rbcwm-usa.com) under "Legal" or by contacting RBC CM toll-free at (866) 735-1510.

## Tax reporting

When you receive your Tax Information Summary, please read it carefully, as some mutual funds and Real Estate Investment Trusts (REIT) may delay the final reporting for your holdings. If your summary includes a footnote indicating you are affected, it is possible that you may receive a corrected Tax Information Summary. Therefore, you may wish to wait before filing your taxes. That corrected summary will be mailed to affected clients on or about March 18, 2020.

If your account was transferred to RBC CM after January 1, 2019, you may receive more than one Form 1099 this year—one from your prior firm and one from RBC CM. Also, please note that the gain/loss information that is presented on your monthly statement(s) and on Form(s) 1099 is only for the period of time your account has been held by RBC CM. Therefore, it is critical that you use all pertinent Form(s) 1099 in preparing your income tax returns.

Please be aware that changes to cost basis information or other information that is reportable to you and the IRS may require us to send revised Forms 1099 to you later than March 18, 2020, for a period of up to three years.

## Tax information

Form 1099-R and Statement of Fair Market Value..... January 31, 2020  
 Tax Information Summary..... February 18, 2020  
 REMIC Tax Information Summary..... March 16, 2020  
 Foreign client reporting (Forms 1042-S).....April 1, 2020  
 First Revised Tax Information Summary ..... On or about March 18, 2020

## Cost basis reporting effective for fixed income and options

In April 2013, the U.S. Treasury released the final set of regulations governing cost basis reporting by financial services firms and individuals. These regulations became effective for tax year 2014 and were implemented over a multi-year period. In phase III, RBC CM began reporting to the IRS the cost basis for less-complex fixed income securities, options, rights, and warrants acquired on or after January 1, 2014, as well as for securities covered under earlier phases.

In 2016, RBC CM began reporting the cost basis for complex debt instruments as well as for securities covered under all earlier phases, which completed the implementation of cost reporting to the IRS under current regulations. For additional information, please visit <http://www.rbcwm-usa.com/legal/rbc-wm/cid-278075.html>.

## Unlawful Internet Gambling Enforcement Act

RBC CM notifies all clients annually that it is unable to process restricted transactions as designated under the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System's Regulation GG, which was issued on June 1, 2010, under the Unlawful Internet Gambling Enforcement Act of 2006 ("UIGEA"). Restricted transactions may include any transmission (through ACH, card systems, money transmitting business, checks, or wires) of money in connection with illicit online gambling.

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## Mutual fund arrangements

Like many securities firms, RBC CM receives payments from fund companies. RBC CM uses this money for general marketing and educational programs, to offset compliance and product management costs, and to support client education programs and seminars. In return for the payments, companies are given access to RBC CM's branch system for the purpose of educating its financial advisors and informing them about available products. Your financial advisor does not receive any extra commission for selling funds from these companies. Your financial advisor individually evaluates the funds and then works with you to choose the appropriate investment for your financial needs. RBC CM has a conflict of interest associated with utilizing these third party providers that make payments to RBC.

The fund companies generally make these payments, which may be based on assets or sales volume, to RBC CM via the fund's distributor, investment advisor or other entity from the management fees they earn. More information on payments may be found in a fund's prospectus or Statement of Additional Information (SAI). Financial advisors may receive a portion of these payments for distribution and servicing expenses related to shares of money market funds included as sweep options to cash accounts. The payment formula is consistent for financial advisors on all of these funds.

RBC CM also receives payments to help offset the cost of managing shareholder accounts. These expenses include sending shareholder statements, maintaining shareholder records and performing regulatory mailings. RBC CM has a conflict of interest in utilizing firms that make payments to RBC CM over firms that do not make payments. RBC CM has a conflict of interest in choosing higher expense ratio share classes where we receive payments from fund families to help offset certain operational costs that RBW CM incurs in connection with distributing mutual funds.

For a list of the fund companies making asset- or sales-based financial payments, or payments based on number of accounts, to RBC CM, visit the Legal Information and Disclosures section on the RBC Correspondent Services website at [www.rbcwm-usa.com/legal/rbc-cs](http://www.rbcwm-usa.com/legal/rbc-cs).

*This information is updated annually and found at [www.rbcwm-usa.com/legal/rbc-cs](http://www.rbcwm-usa.com/legal/rbc-cs). Investors should carefully consider the investment objectives, risks, charges and expenses of a fund before investing. Prospectuses containing this and other information about the fund are available by contacting your financial advisor. Please read the prospectus carefully before investing to make sure that the fund is appropriate for your goals and risk tolerance.*

## RBC Capital Markets/Global Equity Division disclosures

The clients of RBC Capital Markets division may access disclosures related to Best Execution, Order Handling, SEC Rules 605 & Rules 606, FINRA Rule 5270, FINRA Rule 5320, Regulation NMS Order Protection Rule, Indications of Interest, Net Trades, Regulation SHO Buy-Ins Disclosures, Extended Trading Hours, Options Trading Disclosures, SEC Rule 13-h, and information pertaining to the Securities Investor Protection Corporation ("SIPC") and Investor Education and Protection by visiting <https://www.rbccm.com/globalequity/file-868725.pdf>. Should you require a copy of this information, you may contact your RBC Capital Markets representative.

### G-10 disclosure

In accordance with the Municipal Securities Rulemaking Board (MSRB) Rule G-10, you are receiving this notification because you have or may have completed a municipal securities transaction in an account held at RBC Capital Markets, LLC (RBCCM).

- RBCCM is registered with the U.S. Securities and Exchange Commission and the MSRB.
- The MSRB website is <http://www.msrb.org/>. The website provides a link to an investor brochure that describes the MSRB rule's protections and how to file a complaint with an appropriate regulatory authority.

### SIPC protection

In the event of bankruptcy of a brokerage firm, SIPC protects customers whose assets are held at the brokerage firm. SIPC covers up to \$500,000 per customer, with a maximum of \$250,000 for cash. Balances maintained in the deposit accounts at the program banks are not protected by SIPC or any excess coverage purchased by RBC CM. Clients may obtain information about SIPC and access a SIPC brochure by contacting SIPC at 1 (202) 371-8300 or by visiting [www.sipc.org](http://www.sipc.org).

### Foreign Tax Reclaims

If you hold international securities you will be enrolled into the basic foreign tax relief service which allows you to receive the most favorable foreign withholding rate at the time of the dividend payment in three primary markets: Canada, Ireland and Japan.\* A 3% processing fee with a \$200 transactional cap is associated with these services and are applied at the time of benefit. A number of factors are used in determining the foreign withholding rate including account type, the taxing authority of the issuer and the home country of the investor.

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If you have foreign investments outside of Canada, Ireland and Japan you may be eligible for the full reclamation service. If you would like to enroll in the full service, please contact your financial advisor for more information, including an outline on applicable annual fees and processing fees.

You may opt out of these services at any time by contacting your financial advisor. If you choose to opt out, foreign withholding tax will be applied at maximum rates from all non-U.S. investment income. Contact your tax advisor for tax advice. \*Markets subject to change

### **Unclaimed Property**

As a general matter, state law deems property in an Account to be unclaimed property when there is no owner-generated activity and/or there is an invalid mailing address associated with an Account during a statutorily-prescribed time period. If any of your Accounts meet the requirements of unclaimed property specified by state law, RBC CM is required to turn over property in your Account and/or distributions issued from your Account that remain unclaimed to the state associated with the address of record for your Account or, if none, to the state of Minnesota. Please note that many states liquidate account property in accordance with their unclaimed property laws which could pose financial, tax, or other implications for you. You can take steps to avoid your Accounts being deemed to hold unclaimed property including, but not limited to, maintaining contact with your financial advisor, updating your Account addresses and information, regularly accessing your Accounts online, and conducting activity in your Accounts. Your Accounts remain subject to the terms of this Agreement, including, but not limited to fees and charges, liquidation of assets to cover debts, tax notices, and confirmations and notices relating to your Accounts, even if you do not actually receive notices or other mailings RBC CM sends to you at the address of record for your Accounts.